



AUSTRAC Cost Recovery

Delivery Framework –

Implementation Advisory 1.0

This document provides some preliminary insights into the issues and implications of implementing the AUSTRAC Cost Recovery Framework solution recommended in the Comparative Research Paper Version 1.0 of 2nd September 2010.

VERSION 1.0

Commercial in Confidence

Contact: Anton Davis
Managing Director
Tel: +61 3 9571 5555
Mob: +61 408 911 556
Email: anton@murphydavis.com.au

TABLE OF CONTENTS

1	INTRODUCTION	3
1.1	<i>Background and Context</i>	3
1.2	<i>Purpose</i>	3
1.3	<i>The Recommended Delivery Framework Solution</i>	3
2	FEASIBILITY	3
2.1	<i>The Calculation Model</i>	4
2.2	<i>The Enabling Legislation</i>	4
2.3	<i>The Delivery Framework</i>	4
3	KEY TIMING RISKS OF CURRENT APPROACH	4
4	ALTERNATIVE OPTIONS	5
5	CONCLUSION	5

Disclaimer

This report has been prepared after consultation with staff, representatives and/or advisors of AUSTRAC and data, information and documents provided by them. Our findings, assumptions and conclusions are in large derived from these information sources. We are not warranting that the information provided to us is accurate or correct.

1 INTRODUCTION

1.1 *Background and Context*

AUSTRAC is currently planning to implement the Australian Government decision announced earlier in 2010, that it recover costs in respect of its supervisory activities. AUSTRAC has accordingly initiated the Cost Recovery Project and commenced planning in order to enable cost recover for the 20011-12 financial year.

A Comparative Research Paper has been prepared which analyses the Delivery Framework options available to AUSTRAC and which recommended that AUSTRAC seek to engage an Australian Government Agency to undertake cost recovery services (notably collection and financial management) on its behalf.

1.2 *Purpose*

Successfully implementing this recommendation and indeed the Cost Recovery Process within the required timeframes is a significant challenge. It entails a significant volume of work, complexity, uncertainty, the engagement of multiple stakeholders and material risk.

The purpose of this document is to:

1. Identify the key steps;
2. Highlight the key issues and risks;
3. Consider possible contingency options.

1.3 *The Recommended Delivery Framework Solution*

The recommended solution entails engaging a Government Agency to undertake the cost recovery services on AUSTRAC's behalf. The logic underpinning this recommendation is:

- The approach is the most cost effective from a capital expenditure perspective because it assumes that the Government Agency already has the required infra-structure and assets in place to perform the cost recovery.
- The approach is cost effective and efficient from an ongoing administration perspective because it assumes that the Government Agency can leverage synergies and efficiencies available from performing the service for more than one agency.
- The approach minimises the AUSTRAC resource that needs to be diverted from core activities to perform cost recovery.
- All of the above mean that this option presents the lowest financial impact on REs.
- Where an agency already has the underpinning infrastructure and capability in place, because it is already performing cost recovery, the asset procurement and integration requirements are minimised, simplifying delivery.

The challenges associated with this option entail implementing legislation and the delivery framework within the required timeframes. The question is whether the recommended option is feasible in that context.

2 FEASIBILITY

The reality is that none of the possible solutions presents as a timelier alternative to utilising a Government Agency. Rather, all of the potential options will present challenges to implement successfully by 30th June 2010. The key is to commence implementing the selected option at the earliest possible opportunity to increase the chances of success. Given the time constraints it is important to determine whether the option to outsource to a Government Agency is feasible and if it is not, an alternative solution should be selected so that implementation can be commenced in an expedient manner.

The feasibility of outsourcing to a Government Agency essentially boils down to whether an Agency with an appetite to undertake the work can be identified.

All of the potential options present issues in terms of their timely implementation. In order to understand these issues it is first necessary to understand the logistics, risks and dependencies of the generic solution.

The AUSTRAC Cost Recovery solution is comprised of 3 components:

1. The calculation model;
2. The enabling legislation; and
3. The delivery framework.

2.1 The Calculation Model

- The calculation model is described and to some degree prescribed in the legislation. The design of the calculation model must therefore be finalised before the Drafting instructions can also be finalised.
- The timeline estimates require that the drafting instructions be provided to OPC by the end of November 2010.
- Finalising the calculation model requires it to be informed by the consultation process. It will also require approval from the Minister.

2.2 The Enabling Legislation

- For AUSTRAC to undertake cost recovery it requires two pieces of legislation, an Imposition Act which enables AUSTRAC to impose a legal financial obligation upon entities within its jurisdiction (REs) and a Collection Act, which enables AUSTRAC to collect said legal obligation.
- The enabling legislation is a critical dependency and Royal Assent by 30 June 2011 is required.
- The current timeline is tight and there is little/no scope for delays.
- The enabling legislation cannot be finalised before the calculation model is finalised as some of the model detail will be captured in the legislation.
- The enabling legislation cannot be finalised before the delivery framework is selected. If it outsources to a Government Agency, AUSTRAC might not need a Collections Act, as it will not be collecting. Outsourcing to a commercial provider or conducting the activities in-house will require AUSTRAC to have a Collections Act.

2.3 The Delivery Framework

- The approach selected determines if a Collections Act is required or not.
- The delivery framework must be implemented to enable collections for the 2011-12 year. This does not necessarily mean the framework must be in place by 1st July 2011. There is scope to satisfy the requirements as long as the framework is in place by (say) 31st December 2011.

3 KEY TIMING RISKS OF CURRENT APPROACH

The key risk to the success of the cost recovery project is that the legislation will not be enabled by 1st July 2011, the date that cost recovery needs to be effective from as previously announced and budgeted for by the Government.

While it would be ideal for the delivery framework to be in place by the same date, it is not essential. It is plausible that the annual cost recovery exercise could be completed within a 6 month window. It follows that if the process cycle does take 6 months, that 1 January 2012 is the latest date to commence the process for the 2011-12 year. That then also becomes the date by which the delivery framework must be in place.

Key Risk	Impact	Causes	Mitigation Options	Contingency
1. Legislation not passed by 30 June 2011	<ul style="list-style-type: none"> Grave - strategic objective not achieved 	<ul style="list-style-type: none"> Delays in finalising the calculation model Delays in selecting the delivery framework Drafting instructions not provided to OPC on time 	<ul style="list-style-type: none"> AUSTRAC Project Management methodology 	<ul style="list-style-type: none"> Retrospective Legislation - Pass legislation in winter sitting and have it retrospectively enabled.
2. Delivery Framework not implemented by 30 June 2011	<ul style="list-style-type: none"> Minor? 	<ul style="list-style-type: none"> Legislation not enacted in time Rules and Regulations not finalised in time Contract with service provider not in place in time Infrastructure (IT systems, processes etc) not implemented in time 	<ul style="list-style-type: none"> AUSTRAC Project Management methodology 	<ul style="list-style-type: none"> Delay commencement of cost recovery activities to (as late as) 31 December 2011; Develop a simplified interim solution for year 1 and enable the fully matured solution in year 2. Partial Recovery - Form agreement with APRA to perform cost recovery from prudentially regulated REs only (in year 1).

NB: These contingency options are merely noted as options. They are not recommendations.

4 ALTERNATIVE OPTIONS

The other options highlighted in the Comparative Research Paper include outsourcing to a commercial provider or adopting an in-house approach. The key timing challenges with a commercial provider revolve around procurement and contract negotiations as it is assumed that most of the required infrastructure would already be in place.

The only viable in-house solution would entail acquiring some form of billing system. Billing systems can present challenges and can require considerable lead time for implementation. As far as billing systems go, AUSTRAC's requirements are relatively simple and transaction volume will not present major issues. The timing risks will be associated with the procurement process and integration both of which should be achievable within a 12 month timeframe.

Solution Option	Timing Risks	Timing Advantages
Outsource to a Government Agency	<ul style="list-style-type: none"> Requires Government Agency to have enabling legislation (or jurisdiction). Requires identification of candidate Agency with the appetite. Will require inter Agency negotiation 	<ul style="list-style-type: none"> Existing Agency requires little procurement or system integration; Where Agency has jurisdiction, potentially no AUSTRAC Collections Bill required.
Outsource to a commercial provider	<ul style="list-style-type: none"> Involves a procurement process. Involves commercial negotiations. Some residual capability development required by AUSTRAC 	<ul style="list-style-type: none"> One enabling legislation process only (for AUSTRAC); Outsource provider requires little procurement or system integration; Potentially fewer external stakeholders involved in process.
In-house off the shelf solution	<ul style="list-style-type: none"> Procurement process is lengthy Still requires contract negotiations Integration of technology (Billing System) into AUSTRAC environment. 	<ul style="list-style-type: none"> One enabling legislation process only (for AUSTRAC).
In-house bespoke solution	<ul style="list-style-type: none"> Uncertainty. Requires scope, design, build, test and release. 	<ul style="list-style-type: none"> No procurement; One enabling legislation process only (for AUSTRAC).

5 CONCLUSION

1. The timeframe is tight and will require careful and prudent management; and
2. Options 1, 2 and 3 appear achievable within the timeframes.

End.